

Public Employee Retirement System

Analyst: Freeman

Historical Summary

OPERATING BUDGET	FY 2003 Total App	FY 2003 Actual	FY 2004 Approp	FY 2005 Request	FY 2005 Gov Rec
BY PROGRAM					
Administration	5,461,600	4,575,200	5,417,000	8,360,900	8,338,000
Portfolio Investment	628,900	464,200	636,400	647,100	646,500
401(k) Administration	7,700	5,200	0	0	0
Total:	6,098,200	5,044,600	6,053,400	9,008,000	8,984,500
BY FUND CATEGORY					
Dedicated	6,098,200	5,044,600	6,053,400	9,008,000	8,984,500
Percent Change:		(17.3%)	20.0%	48.8%	48.4%
BY OBJECT OF EXPENDITURE					
Personnel Costs	3,160,300	2,916,500	3,214,200	3,310,600	3,338,600
Operating Expenditures	2,823,400	2,036,100	2,724,100	5,508,200	5,456,700
Capital Outlay	114,500	92,000	115,100	189,200	189,200
Total:	6,098,200	5,044,600	6,053,400	9,008,000	8,984,500
Full-Time Positions (FTP)	63.00	63.00	63.00	63.00	63.00

Division Description

The RETIREMENT ADMINISTRATION Program administers a Defined Benefit (DB) retirement plan that is mandatory for all eligible State and school district employees, and for employees of political subdivisions which have elected to participate. The plan also provides separation, disability, death and survivor benefits. The mission of the Public Employee Retirement System of Idaho (PERSI) is to provide members and their beneficiaries with reliable, secure, long-term retirement, survivor, and disability benefits as specified by law, and to assist members in planning a secure retirement by providing high quality, friendly service, retirement education and information. The system also administers the Sick Leave Reserve Fund for State and school district retirees, from which monthly medical insurance premiums are paid, as well as the former Firemen's Retirement Fund and the Idaho Falls and Boise City Police Retirement Funds.

As part of the Gain Sharing program adopted by the 2000 legislature, PERSI established the PERSI Choice Plan, a Defined Contribution (DC) plan for the 62,000 active members of PERSI. This plan, in addition to and separate from the DB plan, provides a 401(k) plan option to all members who are eligible. In years in which investment earnings and total DB plan assets sufficiently exceed liabilities plus one standard deviation reserve, the PERSI board may declare a portion of the excess earnings as gain sharing. When gain sharing is authorized, active members receive their allocation in the form of a transfer into their DC account. Retirees receive a 13th check. Employers receive a credit against future contributions.

The PORTFOLIO INVESTMENT Program is responsible for the management of PERSI assets to ensure secure long-term returns on investments while minimizing investment costs. Beginning in FY 1996, the administrative costs of portfolio investment came under a fixed appropriation. The remaining investment costs continue to operate under a perpetual appropriation as provided in Idaho Code §59-1311.

401(k) ADMINISTRATION Program: FY 2003 was the final year of this program.

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Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2004 Original Appropriation	63.00	0	6,053,400	63.00	0	6,053,400
Removal of One-Time Expenditures	0.00	0	(130,100)	0.00	0	(130,100)
FY 2005 Base	63.00	0	5,923,300	63.00	0	5,923,300
Personnel Cost Rollups	0.00	0	69,100	0.00	0	69,100
Inflationary Adjustments	0.00	0	51,500	0.00	0	0
Replacement Items	0.00	0	119,200	0.00	0	119,200
Nonstandard Adjustments	0.00	0	(32,700)	0.00	0	(32,700)
Change in Employee Compensation	0.00	0	27,300	0.00	0	55,300
FY 2005 Program Maintenance	63.00	0	6,157,700	63.00	0	6,134,200
1. Business Process Reengineering	0.00	0	2,850,300	0.00	0	2,850,300
FY 2005 Total	63.00	0	9,008,000	63.00	0	8,984,500
Change from Original Appropriation	0.00	0	2,954,600	0.00	0	2,931,100
% Change from Original Appropriation			48.8%			48.4%

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2004 Original Appropriation	63.00	0	6,053,400	0	6,053,400
Removal of One-Time Expenditures					
Remove funding provided for one-time items.					
Agency Request	0.00	0	(130,100)	0	(130,100)
Governor's Recommendation	0.00	0	(130,100)	0	(130,100)
FY 2005 Base					
Agency Request	63.00	0	5,923,300	0	5,923,300
Governor's Recommendation	63.00	0	5,923,300	0	5,923,300
Personnel Cost Rollups					
Includes the employer-paid portion of estimated changes in employee benefit costs. The two biggest factors are health insurance rates which are projected to increase by 17%, from \$5,548 to \$6,493 per employee; and retirement system (PERSI) rates that will increase by over 6% from 9.77% to 10.39%.					
Agency Request	0.00	0	69,100	0	69,100
Governor's Recommendation	0.00	0	69,100	0	69,100
Inflationary Adjustments					
Includes a general inflationary increase of 1.9% in operating expenditures payments.					
Agency Request	0.00	0	51,500	0	51,500
<i>The Governor recommends no increase for general inflation.</i>					
Governor's Recommendation	0.00	0	0	0	0
Replacement Items					
RETIREMENT ADMINISTRATION					
Capital Outlay: 27 PCs (\$43,200), 3 laptops (\$6,900), 5 servers (\$33,000), 2 office chairs (\$900), 1 desk (\$900), 3 printers (\$5,400), and 2 fax machines (\$3,400).					
Operating Expenses: software upgrades (\$10,000)					
PORTFOLIO INVESTMENT					
Capital Outlay: 3 PCs (\$7,500), 1 color laser printer (\$8,000)					
Agency Request	0.00	0	119,200	0	119,200
Governor's Recommendation	0.00	0	119,200	0	119,200
Nonstandard Adjustments					
Reflects a reduction in Attorney General, Controller and Treasurer fees pursuant to the Statewide Cost Allocation Plan. Also reflects a reduction in Risk Management property/casualty rates.					
Agency Request	0.00	0	(32,700)	0	(32,700)
Governor's Recommendation	0.00	0	(32,700)	0	(32,700)
Change in Employee Compensation					
Reflects the cost of a 1% salary increase for permanent positions.					
Agency Request	0.00	0	27,300	0	27,300
<i>The Governor recommends a compensation increase of 2% to be distributed based on merit. No adjustment to the pay line is recommended.</i>					
Governor's Recommendation	0.00	0	55,300	0	55,300
FY 2005 Program Maintenance					
Agency Request	63.00	0	6,157,700	0	6,157,700
Governor's Recommendation	63.00	0	6,134,200	0	6,134,200

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
1. Business Process Reengineering					
Retirement Administration					
This enhancement would enable PERSI to redesign its workflow and processes in order to more effectively use current staff and available technology. This enhancement breaks down into three areas: information system enhancements, business process reengineering, and replacement of the document management system. These enhancements are needed in order to meet the 50% expected growth in retirements over at least the next 10 years. PERSI is also requesting carryover authority for this enhancement for FY 2006 and FY 2007. Since carryover authority is an exception to the state budget laws and is not provided for in statute, it requires specific legislative authorization and approval. See next page for further detail.					
Agency Request	0.00	0	2,850,300	0	2,850,300
<i>The Governor does not recommend carryover authority for this enhancement.</i>					
Governor's Recommendation	0.00	0	2,850,300	0	2,850,300
FY 2005 Total					
Agency Request	63.00	0	9,008,000	0	9,008,000
Governor's Recommendation	63.00	0	8,984,500	0	8,984,500
Agency Request					
Change from Original App	0.00	0	2,954,600	0	2,954,600
% Change from Original App	0.0%		48.8%		48.8%
Governor's Recommendation					
Change from Original App	0.00	0	2,931,100	0	2,931,100
% Change from Original App	0.0%		48.4%		48.4%

**Business Process Reengineering and Purchase / Implementation
of Electronic Document Imaging and Workflow**

Decision Unit 12.01 Enhancement Request*

Maintain & Enhance Info. Systems	FY 2005	FY 2006	FY 2007	Total
Technical Consulting Services (Four Contract Staff for Two Years)	481,400	481,400	-	962,800
Project Management for Two Years	90,000	90,000	-	180,000
Storage Area Network	80,000	-	-	80,000
TOTAL	\$ 651,400	\$ 571,400	-	\$ 1,222,800

Business Process Reengineering	FY 2005	FY 2006	FY 2007	Total
Consulting Services - Business Process Redesign & Planning	191,000	-	-	191,000
Consulting Services - Implementation/ Training/Project Mgmt for Three Years	82,500	82,500	82,500	247,500
TOTAL	\$ 273,500	\$ 82,500	\$ 82,500	\$ 438,500

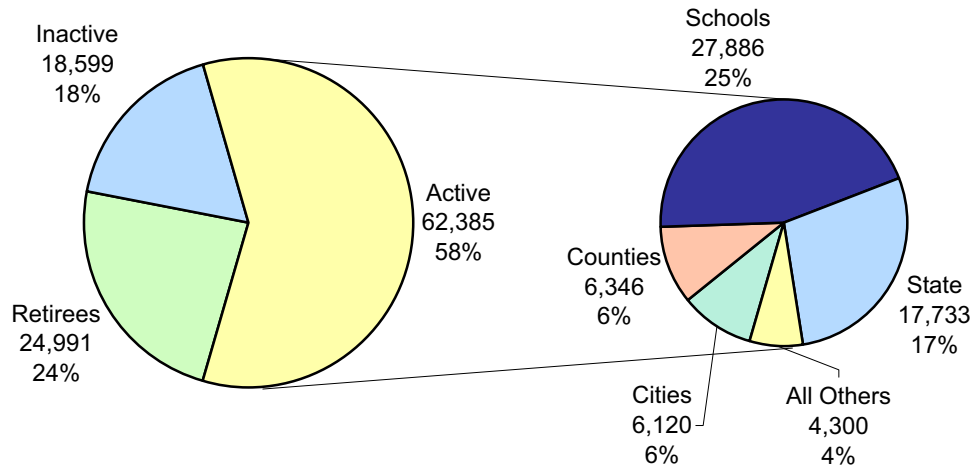
Replace Document Mgmt Systems	FY 2005	FY 2006	FY 2007	Total
Full Imaging System with Basic Workflow including infrastructure improvements	575,000	-	-	575,000
Microfilm Jacket Conversion (1.5 million images)	60,000	60,000	-	120,000
Consulting: Specifications, RFP, Selection, etc.	48,000	-	-	48,000
Project Management / Testing / Validation for 2 years	223,000	223,000	-	446,000
TOTAL	\$ 906,000	\$ 283,000	-	\$ 1,189,000

GRAND TOTAL	\$ 1,830,900	\$ 936,900	\$ 82,500	\$ 2,850,300
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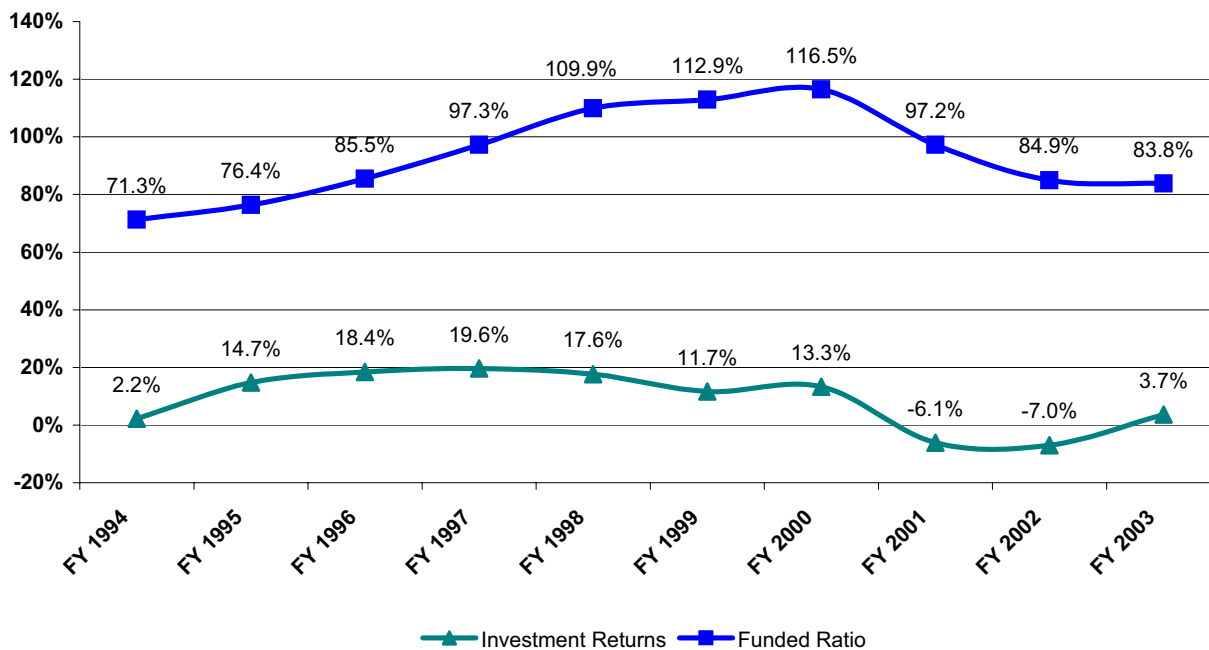
* The FY 2005 budget request is for the total three year amount with carryover authority for FY 2006 and FY 2007.

PERSI Membership

668 employer units belong to PERSI, for a total system membership of 105,975



PERSI - Funded Ratios and Investment Returns



The PERSI Base Plan experienced a 3.7% gross return on investments in FY 2003, which equals \$202.5 million in net investment gain. As of July 1, 2003, the PERSI fund was valued at over \$6.31 billion, up from \$6.08 billion the prior year. PERSI's unfunded actuarial liability at 19.4 years is less than the 25-year amortization period required by law. In November 2002, the PERSI board approved a total contribution rate increase including employee and employer rates, of 3% (phased-in over three years beginning in FY05). At the end of the phase in, contribution rates will be at the same level they were prior to November of 1997 when rates were originally reduced 3%.

PERSI

Issues & Information

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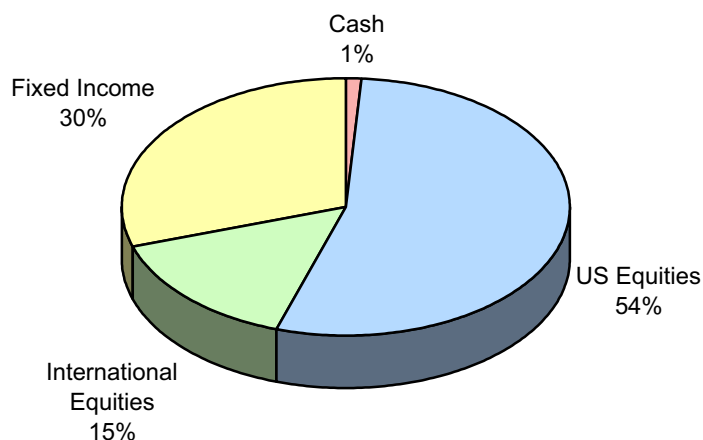
Selected Performance Measures	FY 2002 Act.	FY 2003 Act.	FY 2004 Est.
ADMINISTRATION			
1. Benefits paid (retirements, separations, disability)	290,067,000	317,601,000	331,893,000
2. Administrative expenses (keep below .15% of total asset market value)	0.11%	0.10%	0.10%
PORTFOLIO INVESTMENT			
1. Annual investment income, net of fees	(495,024,200)	208,313,800	798,000,000
2. Number of investment managers at year-end	36.0	35.0	36
3. Number of investment managers hired/fired	3/1	3/1	0/1

Summary of Assets (All Plans)	FY 2002 Act.	FY 2003 Act.	FY 2004 Est.
Beginning assets	6,794.5	6,349.5	6,602.5
Plus contributions	356.0	365.0	396.4
Plus net investment income	(501.6)	212.2	803.0
Less benefits paid & other expenses	(299.4)	(324.2)	(342.5)
<i>Ending net assets (millions)</i>	6,349.5	6,602.5	7,459.4

Contribution Rates	FY 2004	FY 2005	FY 2006
Employer Rate (General Members)	9.77%	10.39%	11.00%
Employee Rate (General Members)	5.86%	6.23%	6.60%
Employer Rate (Fire/Police)	10.11%	10.73%	11.34%
Employee Rate (Fire/Police)	7.21%	7.65%	8.09%

Target Asset Allocation

This asset allocation (whereby PERSI will consistently have about 70% of its assets in equity instruments) is the board's only way to achieve the desired 5% real return (i.e. inflation plus 5%) on investments.



PERSI Organizational Chart

